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2 August 2013

COVENTRY BUILDING SOCIETY ANNOUNCES RECORD RESULTS

Coventry Building Society has today announced its results for the six months ended 30 June 2013. Highlights include:

Increasing share of the mortgage and savings markets

- New mortgage lending up 16% to £2.9 billion (30 June 2012: £2.5 billion).
- Net mortgage lending was £1.2 billion, equivalent to 47% of all net mortgage lending in the UK[1].
- Savings balances increased by £821 million, to a record £20.9 billion.

Continued strong financial performance

- Profit before tax increased by 18% to £62.2 million (30 June 2012: £52.8 million).
- Growth in profitability achieved notwithstanding significant increase made to the rate paid to all variable, easy access existing ISA savers[2].
- Cost to mean asset ratio was 0.38%, the lowest reported by a UK building society.
- Impairment charges just £3.5 million from a loan book of £23.2 billion, reflecting the Society's low risk lending both before and throughout the credit crisis.
- Loans where arrears were greater than 2.5% of the balance was 0.70% (including possessions). This represents just 42% of the industry average of 1.65%[3].
- Core tier 1 ratio of 22.5% remains the highest reported by any top 10 building society or mutual lender.
- Maintained strong 'A' credit ratings throughout the 'credit crunch' – Fitch (A) and Moody's (A3).

Doing the right thing for members and the community

- Average savings rate of 2.55% - Coventry has reported the highest average savings rates[4] to its members of any top 10 building society or mutual over the last six years.
- The minimum rate for all variable, easy access existing ISA savers[2] increased to a market leading[5] 2.50% tax-free p.a./AER[6] on 6 April 2013.
- Over 90% of savings balances currently held at the Society are paid a rate equal to or higher than the equivalent 'best buy' from any major high street bank or building society[7].
- In the most recent table published by the Financial Ombudsman Service, Coventry had the lowest proportion of complaints upheld of any high street bank or building society listed.
- No individual member of staff is incentivised to sell products and hasn't been since 2010.
- £8.5 million raised for the Royal British Legion's Poppy Appeal since October 2008.
- New partnership with Cancer Research UK builds on the Society's innovative support for the charitable sector. The first Race for Life Bond was launched in June 2013, and is expected to raise over £200k for this good cause.

For more information or additional comment please contact:

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David Stewart, Chief Executive, commented on the results:

"Coventry has maintained its track record of strong performance which was established before the onset of the current financial crisis in late 2007.

As a mutual building society, we run the Society in the interests of members. Whilst this requires us to remain strongly profitable, the need to protect savers in a difficult market has been a particular priority, alongside providing a consistent and responsible level of mortgage finance to homeowners. These priorities can be seen in the further growth of both savings and mortgage balances.

Coventry's consistent performance is based on strong fundamentals. We remain the most cost-efficient building society in the UK, the quality of our lending is exemplary, and our core tier 1 capital ratios show us to be amongst the strongest of UK financial institutions. We have retained our 'A' rating from the two main credit rating agencies that rate the building society sector, and have developed a sustainable business that has the fair treatment of customers at its heart.

Although these achievements may not be guaranteed by a mutual business model, Coventry continues to demonstrate that building societies can thrive in the toughest of environments.

Continued support of the mortgage market

Gross mortgage advances totalled £2.9 billion, a record for the Society in terms of both value and market share.

Mortgage balances increased by £1.2 billion, a performance in contrast to that of the market as a whole. Coventry now accounts for 25% of mortgage growth in the UK since the start of 2010[1].

Whilst the Funding for Lending Scheme ('FLS') has successfully helped underpin the supply of mortgages, it is still the case that since the scheme was launched, major lenders collectively have reported a significant contraction in mortgage lending.

The latest figures published by the Bank of England show that in the first 9 months of the scheme, to 31 March 2013, the 10 largest participating lenders had recorded negative aggregate net lending of over £8.6 billion (excluding Coventry). Coventry's positive net lending over the same period of £1.6 billion emphasises the Society's continuing financial strength and the extent to which its business model has been relatively unaffected by the events of the past few years.

Protecting savers

The challenges facing savers are, in some ways, unprecedented. The Bank of England Base Rate has been unchanged at its historical low of 0.50% since March 2009, and significant further cuts in market savings rates have been evident since the launch of FLS. These reductions have impacted both new and existing savers.

In this difficult environment for savers, we have sought to pay all Coventry members very competitive rates on their savings.

In April, we took a unique decision amongst high street banks and building societies to increase the interest rate to 2.50% on a quarter of a million existing cash ISA accounts. As a result, the average interest rate earned by Coventry ISA savers is around 2.70% (as at 30 June 2013).

In fact, well over 90% of all Coventry savings balances – both ISA and non-ISA accounts – currently earn a rate of interest that is equal to or higher than the equivalent best buy available from any major high street bank or building society[7]. The average rate paid to savers during the first half of 2013 was 2.55%[4].

None of our savings products are restricted just to new customers allowing existing members to open new accounts as they are made available. Notwithstanding the availability of cheaper funding through the FLS, offering competitive savings products remains an important objective.

This can be seen in the number of 'best buy' products we have made available. Coventry has provided a market leading ISA for over 60 weeks, our Junior ISA has been joint best buy since its first launch in April 2012, whilst we have also offered leading rates for easy access accounts and fixed rate bonds this year[7].

Not surprisingly, such strong offerings attracted significant retail savings inflows and savings balances increased by £821 million, to £20.9 billion.

Strong and growing profits

In electing to increase the rates paid to long-standing ISA savers, and in maintaining rates on other savings accounts at higher than equivalent best buys, we have chosen to restrict profits below that which could otherwise have been reported.

Nevertheless, net interest income increased by £14.2 million (15%), reflecting amongst other things the benefit of growth in earlier years as well as lower funding costs available via the Funding for Lending Scheme. As at 30 June 2013, the Society had drawn down £500 million from FLS.

The quality of our lending is demonstrated in impairment charges that remain very much lower than for the industry as a whole. Impairment charges totalled £3.5 million, just 0.02% of a loan book which totals £23.2 billion.

The care we exercise in our lending decisions is reflected equally in our control of costs. With a cost to mean assets ratio of 0.38%, Coventry is the UK's most cost-efficient building society. The cost to income ratio of 44.1% also benchmarks favourably with both banking and building society competitors notwithstanding the relatively high rates paid to savers, and the low risk nature of our lending.

Improved income, low costs and low impairment charges combined to produce profit before tax of £62.2 million, an increase of 18% over the first half of 2012.

Committed to fair treatment

The importance of treating customers fairly continues to be emphasised in the media, by regulators and by consumer associations.

For example, the issue of the past mis-selling of Payment Protection Insurance (PPI) is a constant reminder that profit must not be sought at the expense of the right consumer outcome. The increased public awareness of this issue, and the associated activities of claim management companies, has led to a large increase in complaints on this matter across the market as a whole. This has included a number of speculative complaints. By way of example, 63% of the PPI complaints we have received are from people that have never bought such a policy from the Society.

Whilst overall complaints have increased as the result of such activity, FCA reportable complaints relating to our core savings, mortgage and transactional activities reduced in the first half of 2013.

Of the relatively few complaints that are referred to the Financial Ombudsman Service ('FOS'), an extremely low number are reviewed in favour of the customer reflecting the Society's aim to put things right when mistakes are made. Whilst tables for the first half of 2013 have yet to be published, we are confident that we will maintain the Society's excellent record in this area. Indeed, in the most recent table published by FOS, Coventry had the lowest proportion of complaints upheld of any high street bank or building society listed.

Supporting the communities in which we work

Our work in the community and our support of charities and other good causes remains integral to our business. Through the enthusiasm of our staff we have extended the support we offer schools and colleges, improving essential skills and developing financial awareness as well as enhancing career prospects. Branch and head office teams volunteer with over 50 community partners, raising funds and awareness for what are often small local charities that make a big contribution to their communities.

In recent years, we have also become known for our support of charities through the provision of affinity savings accounts. In June, we were delighted to launch the first Race for Life Bond in partnership with Cancer Research UK. This is based on the very successful approach pioneered with The Royal British Legion which has already resulted in donations of £8.5 million to the Poppy Appeal since 2008. We will continue to support the Appeal in the future, having confirmed the Legion as our corporate charity.

Strong and secure

In order to compete in the market for new mortgages and savings, to pay the highest interest rates to savers, and to support charities, the Society must be financially strong.

Coventry is one of the most highly rated banks or building societies in the UK, being 'A' rated by both Fitch (A) and Moody's (A3). In fact, Coventry is now the only major high street bank or building society not to have been downgraded by either of these agencies over the last four years.

At 22.5%, the Society's core tier 1 ratio remains the highest reported by any top 10 building society or mutual lender whilst over the last five years our impairment charges have been covered over seven times by our pre-impairment profits. Since 1 January 2011 the coverage of impairment by pre-impairment profits has been over 10 times. This is comfortably the highest coverage in our peer group[8], evidencing the very high quality of our assets.

The need to factor emerging capital requirements into our thinking, most notably the implementation of simple, backstop leverage ratios, has been incorporated into our plans. The Society's leverage ratio as at the 30 June 2013 was 3.2% under Basel III, applying first year transitional provisions.

Outlook

Although some encouraging signs have been reported, the economic environment remains uncertain.

In such times, it is very important for customers to be confident in their choice of financial services provider. As a minimum, it should provide security, long-term value, and fair and efficient treatment.

The last few years have been amongst the most successful in the Society's history, as its ability to deliver these requirements has been increasingly recognised.

I believe that Coventry Building Society remains in an excellent position, not only to justify the confidence of existing members, but to continue to grow and attract new ones."

Notes to editors

- Summary details of the results for the year ended 30 June 2013 are attached.
- Coventry Building Society is the third largest building society in the UK with assets of £28.6 billion.

[1] Source: BSA.
[2] All variable, easy access ISA balances at 6 April 2013.
[3] Source: PRA (31 March 2013).
[4] Average rate estimate based upon interest payable on shares divided by average of opening and closing shares balances, as disclosed in Financial Statements.
[5] Based on Moneyfacts data as at 30 June 2013.
[6] Annual Equivalent Rate.
[7] Compared to high street banks and building societies (ISA: based on a balance of £5,670, Junior ISA: £3,720, Fixed Rate Bond: £25,000, Easy Access: £10,000, Current/MoneyManager and Children's Accounts: £1) excluding those with restricted availability (e.g. existing customers only, Sharia or reliant on maintaining or opening another product with the same provider). Source Moneyfacts Data as at 30 June 2013.
[8] Top 10 building society or mutual lender.

Group Income Statement	Half Year Ended 30.06.13 £m	Half Year Ended 30.06.12 £m	Year Ended 31.12.12 £m
Net interest income	111.9	97.7	186.9
Other income and charges	5.0	6.8	12.5
Net gains from derivative financial instruments	4.1	0.7	0.1
Total income	**121.0**	**105.2**	**199.5**
Management expenses	(53.4)	(47.0)	(98.6)
Operating profit before impairments and exceptional items	**67.6**	**58.2**	**100.9**
Impairment losses on loans and advances to customers	(3.5)	(4.3)	(9.6)
Provisions for liabilities and charges	(0.9)	-	-
Operating profit after impairments and before exceptional items	**63.2**	**53.9**	**91.3**
Provision for FSCS levies	-	-	(10.2)
Gain on pension curtailment	-	-	9.3
Operating profit after impairments and exceptional items	**63.2**	**53.9**	**90.4**
Charitable donation to Poppy Appeal	(1.0)	(1.1)	(1.9)
Profit before tax	**62.2**	**52.8**	**88.5**
Taxation	(14.5)	(13.0)	(21.0)
Profit for the financial period	**47.7**	**39.8**	**67.5**

Group Statement of Comprehensive Income	Half Year Ended 30.06.13 £m	Half Year Ended 30.06.12 £m	Year Ended 31.12.12 £m
Profit for the financial period	**47.7**	**39.8**	**67.5**
Remeasurement of defined benefit plan (net of tax)	-	-	(4.0)
Effect of tax rate change on other items through the general reserve	-	(0.1)	-
Fair value movements on Available-for-sale assets (net of tax)	(0.2)	8.6	(5.9)
Fair value movements on Hedging activities (net of tax)	(0.4)	-	-
Other comprehensive income for the period, net of tax	**(0.6)**	**8.5**	**(9.9)**
Total comprehensive income for the period, net of tax	**47.1**	**48.3**	**57.6**

Group Balance Sheet

	As at Half Year Ended 30.06.13	As at Half Year Ended 30.06.12	As at Year Ended 31.12.12
	£m	£m	£m
Assets			
Liquid assets	5,143.4	4,516.4	4,476.1
Loans and advances to customers	23,172.3	21,035.4	22,018.9
Hedge accounting adjustment	33.0	80.1	86.8
Derivative financial instruments	222.4	249.6	279.6
Tangible and intangible fixed assets	45.3	45.5	45.1
Other assets	33.5	24.3	27.3
Total assets	**28,649.9**	**25,951.3**	**26,933.8**
Liabilities			
Shares	20,931.8	19,271.2	20,110.5
Borrowings	6,139.8	4,949.7	5,050.1
Hedge accounting adjustment	150.7	226.0	240.4
Derivative financial instruments	269.5	399.1	411.2
Other liabilities	89.7	93.4	100.3
Subordinated liabilities	58.1	58.1	58.1
Subscribed capital	161.4	161.3	161.4
Total liabilities	**27,801.0**	**25,158.8**	**26,132.0**
Equity			
Reserves	848.9	792.5	801.8
Total liabilities and equity	**28,649.9**	**25,951.3**	**26,933.8**

Group Cash Flow Statement

	Half Year Ended 30.06.13	Half Year Ended 30.06.12	Year Ended 31.12.12
	£m	£m	£m
Cash flows from operating activities	880.6	(1,144.6)	(1,770.3)
Cash flows from investing activities	98.5	201.8	537.7
Cash flows from financing activities	(136.5)	780.0	1,131.0
Net increase/(decrease) in cash	**842.6**	**(162.8)**	**(101.6)**
Cash and cash equivalents at start of period	1,876.6	1,978.2	1,978.2
Cash and cash equivalents at end of period	**2,719.2**	**1,815.4**	**1,876.6**

Key Ratios

	Half Year Ended 30.06.13 %	Half Year Ended 30.06.12 %	Year Ended 31.12.12 %
Asset growth	6.4	6.0	10.0
Growth in loans and advances to customers	5.2	9.3	14.4
Net interest margin	0.81	0.78	0.73
Management expenses to mean assets	0.38	0.37	0.38
Core tier 1 capital ratio	22.5	21.9	23.2